

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for Approval of its Forecast 2006 ERRA Proceeding Revenue Requirement, to Consolidate all Commission-Authorized Revenue Requirements, and to Set Unbundled Rate Components Beginning January 1, 2006.

Application 05-08-002
(Filed August 1, 2005)

**OPINION ON SOUTHERN CALIFORNIA EDISON COMPANY'S
2006 ENERGY RESOURCE RECOVERY ACCOUNT FORECAST****1. Summary**

The Commission adopts a 2006 Energy Resource Recovery Account (ERRA) revenue requirement for Southern California Edison Company (SCE) of \$4.288 billion. This revenue requirement includes an increase of \$960.5 million or 8.5%, which is the sum of a \$1.167 billion increase in generation service revenue requirement and a \$206 million decrease in delivery service revenue requirement. The main reason for the increased revenue requirement is the substantial increase in natural gas and power prices forecasted for 2006. The Commission also sets a 2006 Competition Transition Charge (CTC) rate based on the "statutory method" and grants SCE's request that it be allowed to consolidate into one advice letter filing all of SCE's Commission-authorized revenue requirements from other proceedings to avoid multiple rate changes. This matter is uncontested and the proceeding is closed.

2. Procedural Summary

On August 1, 2005, SCE filed its application and testimony in this forecast 2006 ERRRA proceeding. On October 12, 2005, the Commission's Office of Ratepayer Advocates (ORA) notified the assigned Administrative Law Judge (ALJ) that it had completed its review of SCE's forecast revenue requirement and did not take issue with SCE's application. ORA's notice was confirmed in a letter dated October 17, 2005. Accordingly, ORA did not request hearings. In a conference call on October 17, 2005, the ALJ directed SCE to file its opening brief on November 18, 2005, along with information updating the original testimony and revenue requirement to reflect the latest natural gas and power prices and recorded balancing account balances through October 2005. After reviewing SCE's filing, ORA informed the ALJ that it did not take issue with SCE's update, and this matter was submitted for decision on December 2, 2005.

On December 15, 2005, the Commission issued Decision (D.) 05-12-045 in Pacific Gas and Electric Company's (PG&E) 2006 ERRRA proceeding. In response to an ALJ's ruling on December 22, 2005, SCE filed a revised CTC calculation based on the statutory method consistent with D.05-12-045. The revised calculation is incorporated in today's decision.

3. SCE's Updated Request

On November 18, 2005, SCE provided its updated natural gas and power procurement price forecasts for 2006, updated revenue requirements based on these updated price forecasts, and updated 2005 balancing account balances

based on recorded data through October 2005.¹ Based on these updated calculations, SCE's updated request is as follows:

- An authorized 2006 ERRA proceeding revenue requirement of \$4.288 billion.
- An increase of \$960.5 million in its 2006 ERRA proceeding revenue requirement, which is the sum of a \$1.167 billion increase in its generation service revenue requirement, and a \$206 million decrease in its delivery revenue requirement.
 - The main reason for the additional increase in the generation service revenue requirement in 2006 is the substantial increase in natural gas and power prices.
 - The main reason for the smaller decrease in the delivery service revenue requirement is due to updating the 2005 balancing account balances with additional recorded data that reflects gigawatt hour (gWh) sales and revenues that are lower than originally forecast.
- After adjusting for sales growth, an ERRA proceeding revenue increase of \$860.5 million, or 8.5%.
- The establishment of bundled service rate levels based upon the forecast Historical Procurement Charge (HPC) and CTC, Direct Access Cost Responsibility Surcharge (DA CRS) components of \$112.4 million and \$21.1 million respectively.

4. Calculation of the Competition Transition Charge

SCE's CTC is a component of the DA CRS authorized in D.02-11-022. The

¹ According to SCE, its coal-fired Mohave generating station will likely shut down for a period estimated to be about four years, mostly due to lead times required to install pollution controls, even if the coal and water supply issues facing the plant can be successfully resolved in the near future. Because of the continuing uncertainty of the outcome, SCE has not changed its assumption in its ERRA update information that Mohave will not operate during 2006. SCE will inform the Commission if there is any significant change in this outlook.

CTC is determined in the ERRA proceeding for each utility.² The CTC is calculated by comparing the average cost of the utility's generation portfolio to the market cost of that generation as based on the cost of a combined cycle gas-fired turbine (CCGT).³ The Commission has directed that this market proxy value should be updated regularly to reflect the most current and reliable data.⁴

In its November 18, 2005, opening brief, SCE set forth a calculation of CTC based on a stipulation between SCE and the Alliance for Retail Energy Markets (AReM). The CTC was calculated by comparing the average cost of the utility's generation portfolio to the market cost of that generation as based on the cost of a CCGT. Under the stipulation, SCE and AReM agreed that a placeholder value for this market proxy CCGT cost, or market benchmark, is needed for this ERRA proceeding until the appropriate methodology for determining the benchmark is decided in the DA CRS proceeding, Ruling (R.) 02-01-011. SCE and AReM agreed that SCE would use a market benchmark price determined by the methodology adopted in the PG&E ERRA proceeding, Application (A.) 05-06007. The benchmark price would be based on the 20-year levelized cost of a CCGT as computed by the California Energy Commission (CEC) or by this Commission's staff running the CEC's CCGT model. The resulting benchmark price of 7.27 cents/kilowatt hour (kWh) would be used in this ERRA proceeding as a placeholder until the appropriate benchmark methodology is decided in the DA CRS proceeding. SCE provided the benchmark and resulting CTC calculation on

² D.03-07-030, p. 14.

³ D.02-11-022, pp. 105-106.

⁴ *Id.*, p. 106.

page 14 of the updated information in Appendix A to its November 18, 2005 opening brief. If and when a different methodology for determining the benchmark is decided in the DA CRS proceeding, the SCE/AREM stipulation provided that SCE's benchmark for 2006 would be adjusted accordingly. SCE and AREM agreed that nothing in their joint stipulation would prejudice or predetermine the outcome of deliberations concerning the benchmark methodology or the issue of negative CTC in the DA CRS proceeding. As set forth in Appendix A to SCE's November 18, 2005 opening brief, SCE used the total portfolio methodology agreed upon in the SCE/AREM stipulation and the market benchmark of 7.27 cents/kWh to calculate a total system average CTC rate for 2006 of 0.237 cents/kWh, and an average CTC rate for DA customers of 0.182 cents/kWh. This resulted in estimated DA CRS revenue associated with the DA CRS CTC component of \$21.1 million.

On December 15, 2005, the Commission issued D.05-12-045 in PG&E's 2006 ERRR forecast proceeding, A.05-06-007. In this decision, the Commission adopted the "statutory method" for calculating the ongoing CTC revenue requirement on the PG&E system, as opposed to the "total portfolio method."⁵ The statutory method differs from the total portfolio method in that the total portfolio method includes the cost of utility retained generation (URG), while the statutory method does not.⁶

SCE's original CTC calculation submitted on November 18, 2005 used the total portfolio method, which included the cost of SCE's URG. On

⁵ D.05-12-045, mimeo, page 17.

⁶ *Id.*, mimeo, page 9.

December 22, 2005, pursuant to an ALJ ruling, SCE provided a revised CTC calculation, based on the statutory method. This method retains the market price benchmark of 7.27 cents/kWh, but removes the forecast cost of SCE's URG. It also removes the forecast supply of SCE's URG (i.e., nuclear, coal and hydro) facilities from the calculation of above market costs. The resulting total system average CTC rate for 2006 is 1.024 cents/kWh, and the average CTC rate for DA customers is 0.787 cents/kWh. This change increases the estimated 2006 DA CRS CTC-related revenue from \$21.1 million to \$91.2 million.

As acknowledged in the ALJ ruling, D.05-12-045 recognized that calculating CTC based on the statutory method may have unintended effects on other components of the CRS. However, in that decision, the Commission declined to address the details of determining any of the components of the CRS other than ongoing CTC, as beyond the scope of PG&E's ERRA proceeding. Such issues will be addressed in R.02-01-011, where there is a working group whose intent is to update the CRS obligations. The Commission expects this working group to update the DA CRS calculation methodology that will address the effects of D.05-12-045 on other components of the CRS.

In the meantime, consistent with D.05-12-045, the revised CTC calculation is incorporated in today's decision.

5. 2006 Total System Consolidated Revenue Requirement

As in the past, SCE proposes to utilize this proceeding to consolidate all Commission-adopted revenue requirements into rate levels at one time upon a final Commission decision in this proceeding. Table II-3 of Exhibit SCE-1 sets

forth SCE's original estimated 2006 consolidated revenue requirement by Commission proceeding.¹⁷ 0

Upon a final decision in this proceeding, SCE will consolidate the updated 2006 ERRa proceeding revenue requirement into rate levels along with all other revenue requirements the Commission has authorized. SCE will implement the consolidated revenue requirements authorized by the Commission in this and other proceedings by scaling existing rates based on the system average percentage (SAPC) methodology utilized previously in SCE's 2003 and 2004 ERRa forecast proceedings. Because a Commission decision in Phase 2 of SCE's 2006 general rate case (GRC) proceeding is not expected until August 2006, SCE will scale current rate levels so that when multiplied by forecast 2006 kWh sales, the new rates will produce the revenue requirements consolidated in this proceeding.

We agree that it is appropriate for SCE to submit an advice letter filing that consolidates the rate changes authorized by the Commission in other proceedings and the latest recorded balance in the accounts included with the ERRa forecast revenue requirement adopted by this order. Also, consistent with SCE's tariffs, the individual balances consolidated in this proceeding will be reviewed on a retrospective basis for reasonableness as part of SCE's April 2006 ERRa reasonableness application.

⁷ Appendix A of Exhibit SCE-1 included a table that shows SCE's estimated 2006 Consolidated Revenue Requirement by rate component.

6. Discussion

D.02-10-062 established an ERRA balancing account for the major energy utilities to track fuel and purchased power revenues against actual recorded costs. That decision required the major energy utilities to establish an annual ERRA fuel and purchased power revenue requirement forecast and an annual ERRA reasonableness review through the application process. Consistent with D.02-10-062, SCE set forth in its testimony: (1) its forecast of its 2006 loads and sales, and its methodology for determining its forecast; (2) its forecast of 2006 energy production and costs for its portfolio of resources, and its methodology for developing its forecast of energy production; (3) a discussion of its financing costs that relate to its forecast power production and procurement during 2006 that should be recovered through the ERRA, and the operation of the ERRA itself; and, (4) its estimated 2006 fuel inventory carrying costs for nuclear and diesel fuel inventories for inclusion in its 2006 ERRA revenue requirement, and its estimated 2006 collateral carrying costs.

ORA conducted an independent review and analysis of SCE's application, testimony and workpapers. On October 17, 2005, ORA informed the assigned ALJ that it would not take issue with SCE's forecast 2006 revenue requirement, or other proposals in this proceeding. Also, on December 2, 2005, ORA informed the assigned ALJ that it would not take issue with SCE's updated forecast. Therefore, we conclude that since SCE's requested rate recovery in this proceeding is uncontested, it is reasonable to adopt SCE's updated 2006 ERRA revenue requirement and revenue changes as requested, and revised CTC calculation based on the statutory method consistent with D.05-12-045.

7. Categorization and Need for Hearings

In Resolution ALJ 176-3157 dated August 25, 2005, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. No protests have been received and there is no apparent reason why the application should not be granted. Our examination of the record persuades us that a public hearing is not necessary. We will modify the preliminary determination in Resolution ALJ 176-3157 to reflect our conclusion that no hearing is necessary.

8. Comments on Draft Decision

This is an uncontested matter, in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

9. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and Bertram D. Patrick is the assigned ALJ in this proceeding.

Findings of Fact

1. On November 18, 2005, SCE filed an update to its forecast 2006 ERRA proceeding revenue requirement and rate proposal.
2. SCE's updated ERRA proceeding request includes: (1) the impact of \$353.6 million of forecast natural gas cost and power price increases above what was included in its initial filing, and (2) the impact of \$98.2 million of balancing account-related increases caused by the inclusion of additional recorded information.
3. SCE's updated ERRA proceeding revenue requirement is \$4.288 billion, which represents a \$960.5 million increase above SCE's presently adopted revenue requirement.

4. After adjusting for changes in sales, SCE's total 2006 ERRA proceeding revenue increase is \$860.5 million or 8.5%.

5. SCE and AReM agree that SCE will use a market benchmark price that is consistent with the price arrived at in the PG&E 2006 ERRA proceeding.

6. A market benchmark price of 7.27 cents/kWh calculated in the PG&E 2006 ERRA proceeding is based upon the 20-year levelized cost of a CCGT computed by the Commission's Energy Division.

7. Using the market benchmark of 7.27 cents/kWh, and the statutory method consistent with D.05-12-045, SCE's 2006 total system average CTC rate is 1.024 cents/kWh, and the average CTC rate for Direct Access customers is 0.787 cents/kWh.

8. The resulting HPC component of SCE's bundled service rate levels is \$112.4 million, and the resulting CTC component of SCE's DA CRS is \$91.2 million.

Conclusions of Law

1. Since SCE's requested rate recovery in this proceeding is uncontested, it is reasonable to adopt SCE's updated forecast 2006 ERRA proceeding revenue requirement changes and revenue changes as set forth herein.

2. SCE's updated 2006 ERRA proceeding revenue requirement of \$4.288 billion is adopted.

3. SCE's updated 2006 ERRA proceeding revenue requirement increase of \$960.5 million is adopted.

4. SCE's total system 2006 ERRA proceeding revenue increase of \$860.5 million is adopted.

5. SCE's request to consolidate its ERRA proceeding revenue requirement with other rate changes adopted in other proceedings, is granted.

6. SCE's proposed implementation of the consolidated revenue requirements into 2006 rate levels by scaling existing rates based upon the SAPC methodology is adopted.

7. The joint stipulation between SCE and AReM of a market benchmark of 7.27 cents/kWh is adopted.

8. Consistent with D.05-12-045, a 2006 total system average CTC rate of 1.024 cents/kWh, and an average CTC rate for Direct Access customers of 0.787 cents/kWh, is adopted.

9. The resulting HPC component of SCE's bundled service rate levels of \$112.4 million is adopted, and the resulting CTC component of SCE's DA CRS of \$91.2 million is adopted.

O R D E R

Therefore, **IT IS ORDERED** that:

1. Southern California Edison Company (SCE) is authorized to make an advice letter filing within 10 days of the effective date of this decision, or on January 1, 2006, whichever is later, to implement new rates, as authorized in this and other decisions, to be made effective beginning January 1, 2006, or as soon thereafter as possible.

2. SCE shall include a final consolidated revenue requirement table in its advice letter filing that includes only Commission-authorized amounts as of the date of the advice letter filing.

3. A market benchmark of 7.27 cents/kWh shall be used for calculating the 2006 Competition Transition Charge (CTC) rate. Using the statutory method, this results in a 2006 total system average CTC rate of 1.024 cents/kWh, and an average CTC rate for Direct Access customers of 0.787 cents/kWh. The resulting

Historical Procurement Charge component of SCE's bundled service rate levels is \$112.4 million, and the resulting CTC component of SCE's Direct Access Cost Responsibility Surcharge is \$91.2 million.

4. Resolution ALJ 176-3157 dated August 25, 2005 is modified to reflect that upon review of the record the Commission determined that an evidentiary hearing is not necessary in this proceeding.

5. Application 05-08-002 is closed.

This order is effective today.

Dated _____, at San Francisco, California.